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SENSITIVE
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STATE FOR EAP/MTS AND EEB/ESC/IEC/ENR
COMMERCE FOR 4430/NADJMI AND 6930/HUEPER
ENERGY FOR PI-32 CUTLER
STATE PASS TO USTR EHLERS AND WEISEL
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SUBJECT: NEWMONT'S FUTURE IN SUMBAWA

REF: JAKARTA 0731

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¶1. (SBU) Summary. ConGenOff visited western Sumbawa from April 21-24, meeting with Newmont representatives as well as government officials and non-governmental organizations (NGO). The General Manager of Newmont Nusa Tenggara (PTNNT) said the recent arbitration ruling offers clarity in regard to how shares will be divested. The company does not expect its land use permit to be renewed until after the initial phase of divestiture and the presidential election. While the Head (Bupati) of West Sumbawa District expressed concerns about environmental impact, most officials and NGO representatives expressed general satisfaction with Newmont's environmental protection practices and all stated support for Newmont's continued operations. The Bupati complained that the company has failed to partner with local government on community development initiatives. Officials in Sumbawa District, the district to the north of Newmont's current facility, expressed approval for what they described as Newmont's planned exploration activities in the district. End Summary.

Context

¶2. (SBU) Newmont Nusa Tenggara (PTNNT), hereafter referred to as Newmont, began operations on the southwest corner of Sumbawa in Nusa Tenggara Barat (NTB) Province in 1997. The gold and copper mine became operational in 1999 and is now considered a mature mine. According to the General Manager, the company expects the extraction life of the mine to continue an additional ten years followed by several additional years for processing. West Sumbawa District, where the mine is located, was previously part of Sumbawa District, but became an independent district in 2003 as a result of the district's growing economic importance and population density. According to the Bupati, Mr. Zulkifli Muhadli, Newmont accounts for 95 percent of the district's economy. The company employs more than 7,000 people. Well over half of the current inhabitants of the sub-districts nearest the mine are originally from outside Sumbawa. Newmont reports total wage payments of approximately \$100 million annually, with more than 60 percent going to employees who are now resident in Sumbawa, although much of their income is reportedly sent to their places of origin in other parts of Indonesia. The average monthly salary of Newmont's Indonesian employees is between 400 and 800 USD, while the average monthly earnings of non-Newmont employees in the area reportedly average approximately 100 USD.

Divestiture Ruling and the Holding of Shares

13. (SBU) ConGenOff met with Leigh Taylor, the outgoing General Manager of Newmont's Sumbawa-based mining operation, on April 21, 2009. He indicated that the recent arbitration ruling provided direction into how shares would be divested. He added that Newmont originally wanted to have control over who would become their Indonesian partners, an option no longer possible. He also noted that the pricing of shares, particularly those that were to be divested from 2008 on, will be a matter of considerable debate due to Indonesian financing issues and differing opinions regarding the depreciation of the mine's ore value. He made no comment regarding how the Government of Indonesia (GOI) would finance the shares, but noted that the local government expects to control the divested shares under the stewardship of the West Nusa Tenggara (NTB) Provincial Government in Mataram, Lombok. The Bupati of West Sumbawa District argued that all 31 percent of shares scheduled to be divested should belong to NTB. He indicated that the central government has agreed that the 10 percent of shares that were to be divested between 2006 and 2007 will be held by NTB, adding that NTB has also requested the seven percent of shares that were scheduled to be divested in 2008.

Land Use Permit "Pinjam Pakai" Issues

14. (SBU) Newmont's General Manager noted that the company's land use permit, known in Indonesian as the "Pinjam Pakai," was originally issued in 1997. However, the 2005 renewal permit was never granted. The permit, which must be approved by the Departments of Forestry and Energy and Mineral Resources, is needed for Newmont to clear additional forest area near the mine for use as a disposal site. Without the permit renewal, he said the mine would have to close its operations in 2011. The General Manager informed us that the provincial government of NTB wants the permit renewed, but political opposition within

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the central government has been the obstacle. Newmont's security manager noted that the lack of the pinjam pakai had resulted in a significant slowing of the company's operations. He pointed out that 50 trucks and two shovels that would normally be running were parked due to the lack of sufficient waste disposal space. He added that "other work" had been found for the truck drivers, but up to 500 layoffs would be possible in the future if the pinjam pakai is not approved.

15. (SBU) During a meeting with forestry officials in Mataram, the capital city of NTB, it was confirmed that the NTB Forestry Department is supportive of the continuation of Newmont's operations. The Bupati of West Sumbawa, while an outspoken critic of Newmont's community development initiatives, informed us that he and NTB leadership, including the Forestry Department, had requested that the central government approve the permit on multiple occasions but had never received a response. The original 1997 permit gave permission for use of the area around the mine (some 87,540 hectares) and resulted in a reclassification of the forest from "protected forest" to "limited production forest." According to the Director of the Forestry Department in Mataram, however, the Minister of Forestry issued a decree in 1999 to return the forest to protected status, further complicating the Pinjam Pakai issue. The NTB Forestry Department has been trying to have the status changed back to limited production forest.

16. (SBU) One long-time employee of Newmont noted that the Departments of Mining and Forestry had met with Newmont officials within the past two weeks and had tentatively agreed to move forward with renewal of the permit. The General Manager, however, suggested that the political will to renew the permit would not likely exist until both the first phase of divestiture and the presidential election take place. He also said the recent appointment of well-known Indonesian businessman Mr. Martiono Hadiano as the company's new President Director represents the first time an Indonesian has headed the company.

The General Manager expressed hope that having a well-known and respected Indonesian at the helm would help to improve relations with the central government.

Community Development and Money Issues

17. (SBU) Newmont has an active community development program in the three sub-districts nearest the mine (Maluk, Sekongkang, and Jereweh) in West Sumbawa District. During a visit to two of the three sub-districts, it was pointed out that almost every school and clinic had been constructed by Newmont. According to Newmont's Director of Community Development, three high schools, five junior high schools, and 22 elementary schools have been constructed as well as several clinics and irrigation reservoirs. Newmont has also provided funding for nurses who serve at clinics within the sub-districts as well as teaching assistants who assist both students and government-funded teachers. We visited a small brick factory that was set up with Newmont assistance as well, the only production facility that was pointed out as a community development initiative. More than 95 percent of the factory's income is derived from sales to Newmont.

18. (SBU) During a meeting with the West Sumbawa District Bupati, he complained that Newmont's community development methodology is a problem and that some of their projects were of no benefit. Arguing that Newmont should view local government as a partner, he said Newmont never consults with local government about development projects. He suggested that funds should be provided directly to the district government for community development initiatives due to the government's knowledge of community needs. The most significant complaint from the Bupati, a complaint that was echoed by other officials and representatives of NGOs we met with in Sumbawa District, was the company's alleged lack of effort in setting up "production centers" near their facility. Both the Bupati and NGO representatives complained that the "multiplier effect" of Newmont's operation is not what it should be due to Newmont's importation of its supplies from outside Sumbawa rather than assisting the local community in setting up local production facilities. The Bupati gave the example of beef and poultry production as industries that should be developed locally.

19. (SBU) The Bupati also complained that the local government's share of the royalties from the mine has only a minor positive

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impact on the district's bottom line. He said the central government reduces the district's regular budget allocation based on the amount of royalties passed on (50 billion Rupiah per year - approximately 4.3 million USD, according to the Bupati). The General Manager of Newmont informed us that West Sumbawa District had been charging the company "illegal taxes" for years, amounting to approximately 12 million USD annually. Following the recent arbitration ruling, however, he said the company would no longer pay these taxes (on fuel, vehicles, etc.) as they are illegal based on the company's contract of work obligations. He added that the company could have done a better job with relationship building in the past and plans to do better in the future. He also acknowledged the impact the loss of 12 million USD annually would have on the district and said the company is looking into responsible ways to help offset the local government's loss without simply handing money over to local officials without accountability. The new President Director is expected to play the leading role in determining how best to improve the relationship with the district government.

Environmental Awards and Concerns

10. (SBU) In 2008, Newmont received the Green PROPER award from the Indonesian government in recognition of its environmental protection practices, Indonesia's second highest environmental designation. During a meeting with forestry officials in Mataram, the head of the Provincial Forestry Department informed us that Newmont maintains quality environmental standards. One of the NGO representatives we met in the city of Sumbawa Besar

cited a university study (a couple years old) that demonstrated that waters near the mine were not negatively impacted by the tailings that are dumped three miles offshore. He did, however, express concern about the long-term impact. The Bupati of West Sumbawa District indicated that a doctoral student at a university in Mataram had conducted tests of coastal waters near the Newmont facility in early 2009 and discovered a higher than average concentration of heavy metals. The Bupati was unable to provide any details about the study or the academic. No other officials appeared to be aware of this study.

Sumbawa District: Supports Newmont Plans, With Caveats

¶11. (SBU) Sumbawa District is located just north of West Sumbawa District. According to Mr. Muhammad Jabir, the District Deputy Head (Vice Bupati), Newmont has conducted preliminary surveys of the district and has reportedly requested approval to conduct exploration in the district. He also said a community survey revealed that more than 75 percent of the population supported Newmont's planned mining exploration. However, the Vice Bupati as well as local forestry and NGO representatives all expressed the need for Newmont to work with the local government early on. They indicated that if a future mine were allowed to operate in Sumbawa District, Newmont would be required to train the local population for jobs at the mine rather than recruiting employees from outside Sumbawa as was the practice in West Sumbawa District. This, he said, would result in more money being spent locally rather than "leaking" to other parts of the country. He also noted a desire to see local production capacity enhanced so as to avoid importation of basic supplies for any future mining operations. Note: During ConGenOff's meeting with Newmont's outgoing General Manager, he only mentioned one site that Newmont was interested in exploring - a site approximately 60 kilometers to the northeast of the current mine. End Note.

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